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Tokyo To Extend Car Export Restraints For Sixth Year

Tokyo has deployed its single most powerful tactical weapon in the running battle to derail congressional momentum for protectionist legislation targeted at products stamped "Made in Japan." On February 13 International Trade and Industry Minister Michio Watanabe announced that shipments of Japanese-made cars to the United States will remain capped at 2.3 million units through March 1987. The decision to limit exports for a sixth year was strictly political, dictated by the fallout in Washington from the huge and expanding U.S. trade deficit with Japan. Whatever economic rationale underpinned the 1981 bilateral agreement to shelter American automotive manufacturers from the

full brunt of Japanese competition for three years has been swept away by the U.S. Big Three's record or near-record profits in the 1983-85 period.

Japan's decision to continue export restraints for yet another twelve months came as no surprise, but the timing of the announcement caught most analysts off-guard. As recently as late January, MITI sources were saying that Tokyo's position on the extension issue would not be finalized before early March. In moving up this schedule at the last minute, the Japanese government apparently concluded that it had more to gain than lose from going public with a decision described as "unavoidable" by MITI Minister Watanabe. Above all, policymakers in Japan wanted to prevent a replay of the trans-Pacific wrangling that inflamed bilateral relations in the months leading up to its March 28, 1985 announcement that shipments would be restricted through this March. Tokyo also clearly hoped to take some of the sting out of the news that the red ink in this country's trade account with Japan had swelled from $36.8 billion in 1984 to $49.7 billion last year and that it showed few signs of receding in 1986.

The White House's reaction was a classic example of "once burned, twice shy". Last year the Japanese government embarrassed the administration by opting to extend the restraints after President Reagan had decided not to ask for a continuation (see JEI Report No. 13B, April 5, 1985). This time around the White House not only greeted the Japanese announcement with "studied silence," to use one U.S. editorial writer's phrase, but also went to some lengths to distance itself from the Japanese decision. U.S. Trade Representative Clayton Yeutter stated that Washington did not ask the Japanese to maintain a lid on U.S.-bound car shipments. "It was their decision alone," he emphasized, adding that export restraints are not a substitute for efforts to improve market opportunities in Japan for American exporters.

Elsewhere, news of the quota extension generated a predictable response. Members of Congress generally applauded the decision but warned that it would not get Tokyo off the hook (see following article). Spokesmen for Ford Motor Co., Chrysler Corp. and the United Auto Workers union used adjectives like "constructive" and "appropriate" to describe the announcement, although they too called for action by Japan to rectify the bilateral trade imbalance. General Motors Corp., however, broke ranks with its two smaller rivals, expressing disappointment at an outcome that will again limit the number of cars it can import for sale under the Chevrolet nameplate.

Most columnists and editorial writers depicted Tokyo's decision as smart politics but bad economics. Car buyers, they reminded readers, will be stuck with artificially inflated sticker prices on both Japanese-assembled cars and domestic makes for at least another year, while American manufacturers will have to deal with stepped-up competition in the most profitable segments of the U.S. market. Industry analysts took a different tack, arguing that the continuation of export restraints will have little effect on sales of Japanese cars during the April 1986-March 1987 period, even though auto makers had estimated that their U.S.-bound shipments might jump by as much as 20 percent if controls were lifted. In this view, weaker domestic car demand coupled with the sharp run-up in the yen's value, Detroit's willingness to use cut-rate financing and other incentives to move cars and the arrival of new foreign competitors in the

market's low end, lessen the chances that Japanese manufacturers will sell enough cars to bump up against the 2.3 million unit export ceiling (see JEI Report No. 3B, January 24, 1986).

The reaction in Japan's automotive industry to a sixth year of restraints was muted. Representatives of the top makers accepted the quota extension as politically inevitable, although there was widespread disappointment that the shipment cap was not raised. This option, however, was apparently never considered by the Japanese government once it concluded that the export restrictions had to be maintained -- and for good reason. The backlash triggered by last year's decision to hike the ceiling from 1.85 million units in the twelve months through March 1985 to 2.3 million cars in the current restraint period eliminated whatever political goodwill had been generated in Washington by the announcement that competition from Japanese exporters would again be throttled.

Saddled with their present export allocations for another year (see accompanying table), corporate planners at Japan's automotive companies are busy reviewing their U.S. marketing strategies. Honda Motor Co., Ltd. officials have the easiest job. Starting this summer, the number-three importer will have the capacity to turn out twice as many cars each year as the 144,000-plus vehicles it assembled at its Marysville, Ohio plant in 1985.

Unofficial Quota Allocations, FY 1981-FY 1986

(in units)

Exporter	FY 1981-FY 1983 Quota	FY 1984 Quota	FY 1985-FY 1986 Quota
Toyota Motor Corp.	516,659	551,792	620,800
Nissan Motor Co., Ltd.	456,030	487,040	547,900
Honda Motor Co., Ltd.	348,631	372,338	428,600
Mazda Motor Corp.	159,282	173,468	229,700
Mitsubishi Motors Corp. (including sales to Chrysler Corp.)	112,584	122,612	186,200
Fuji Heavy Industries, Ltd.	70,014	76,250	117,200
Isuzu Motors, Ltd. (including sales to General Motors Corp.)	16,800	49,500	117,100
Suzuki Motor Co., Ltd. (for sale to General Motors Corp.)	0	17,000	52,500
Total*	1,680,000	1,850,000	2,300,000

*Not included in these figures are the separate quotas on exports of four-wheel-drive vehicles, station wagons and mini vans and on shipments to Puerto Rico. These quotas are estimated at 112,900 units and 95,700 units, respectively, for FY 1985 and FY 1986.

Marketing people at Nissan Motor Co., Ltd., the maker of the second-largest-selling import, also have some built-in maneuvering room since the company's facility in Smyrna, Tennessee is gearing up to produce 120,000 to 140,000 cars annually by the end of 1986.

Import leader Toyota Motor Corp. could be in the biggest bind since its recently announced assembly plant in Georgetown, Kentucky will not come on-stream until late 1988. In the interim, Toyota's only source of additional cars will be its joint manufacturing venture with GM, which is scheduled to start making 30,000 to 50,000 vehicles a year for Toyota dealers this August. Other Japanese makers are in an equally tight spot. Although Mazda Motor Corp. and Mitsubishi Motors Corp. are building U.S. assembly facilities, their plants will not go into operation until the fall of 1987 and late 1988, respectively. For them as well as Fuji Heavy Industries, Ltd. (the manufacturer of Subaru vehicles), Isuzu Motors, Ltd. and Suzuki Motor Co., Ltd., exports will be the only source of supply for the coming quota year.

Susan MacKnight

Capitol Hill Reacts Favorably To Extension Of Car Restraints, But Warnings About Retaliation Continue

Although the announcement that Japan would maintain its restraints on auto exports through March 1987 was generally greeted with enthusiasm by members of Congress, most refused to discount the possible enactment of protectionist legislation this year. Sen. John Danforth (R, Mo.), head of the Senate Finance subcommittee on international trade and architect of numerous Japan-specific measures designed to retaliate against perceived unfair trading practices, said he was pleased with the news and hoped that Japan recognized that in order to export it must import more goods from abroad. He did not, however, indicate that his bills targeting Japan would be affected by this development.

Despite the positive reaction, few on Capitol Hill thought the decision would do little more than temporarily appease congressional anger at the record $49.7 billion U.S. trade deficit with Japan. Even those who applauded Tokyo's move noted that the deficit has soared despite five years of export restraints. Moreover, given the number of complaints against Japan, the resolution of one issue hardly relieves Congressional pressure to act on telecommunications equipment, semiconductors, wood products, machine tools, or any one of a number of other hotly contested trade items, separately or en masse.

There is also a muted backlash discernible in Washington. Some hard-line advocates of protectionism construe Japan's move as blatently manipulative, aimed as it is at undercutting attempts to enact retaliatory legislation. "All I get from this is that the Japanese have learned to play the U.S. trading relationship like a violin," Sen. Donald Riegle Jr. (D, Mich.) told a New York Times reporter.

Interest in what Japan does about U.S.-bound car exports is not just limited to the extreme ends of the trade debate. Legislators in the more moderate spectrum view autos as a political flashpoint as well. They are in